

CITY OF MONTEZUMA, IOWA
INDEPENDENT AUDITOR'S REPORT
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

June 30, 2013

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City of Montezuma, Iowa
City Officials
Year Ended June 30, 2013

<u>Name</u>	<u>Title</u> (Before January 2013)	<u>Term</u> <u>Expires</u>
James M. Hicks	Mayor	January, 2016
Frank R. Brownell, III	Mayor Pro Tem	January, 2016
Ronald Willrich	Appointed Council Member	January, 2014
Donald Vos	Council Member	Resigned November, 2012
Aaron Mc Clasen	Council Member	January, 2016
Corey Simpson	Council Member	January, 2016
Meryll Hicks	Clerk/Treasurer	Indefinite
William J. Sueppel	Attorney	December 2012
Gilbert R. Caldwell III	Attorney	Indefinite
(After January 2013)		
James M. Hicks	Mayor	January, 2016
Frank R. Brownell, III	Mayor Pro Tem	January, 2016
Ronald Willrich	Appointed Council Member	January, 2014
Curtis Bolen	Council Member	January, 2014
Aaron Mc Clasen	Council Member	January, 2016
Corey Simpson	Council Member	January, 2016
Meryll Hicks	Clerk/Treasurer	Indefinite
Gilbert R. Caldwell III	Attorney	Indefinite



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Van Maanen, Sietstra & Meyer, PC

CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditor's Report

To the Honorable Mayor and Members of the City Council
City of Montezuma
Montezuma, Iowa

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, the discretely presented component unit, each major fund and aggregate remaining fund information of the City of Montezuma, Iowa, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessments of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Montezuma as of June 30, 2013, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

Basis of Accounting

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Montezuma's basic financial statements. Another CPA firm previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the one year ending June 30, 2004 and we audited the financial statements for the eight years ended June 30, 2012 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedules 1 through 5, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basis financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basis financial statements or to the basis financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information, Management's Discussion and Analysis and Budgetary Comparison Information on pages 5-9 and 26-27 has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Governmental Auditing Standards*, we have also issued our report dated September 11, 2013 on our consideration of the City of Montezuma's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Pella's internal control over financial reporting and compliance.

Van Maanen, Sietstra & Meyer, PC

Van Maanen, Sietstra & Meyer, PC
Certified Public Accountants

September 11, 2013

The City of Montezuma provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2013. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2013 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased 120.5%, or approximately \$1,398,000, from fiscal 2012 to 2013. The increase is due largely to \$1,215,000 in loan proceeds.
- Disbursements of the City's governmental activities increased 42.8%, or approximately \$502,000 from fiscal 2012 to fiscal 2013. Capital project expenditures were up \$545,000 due to work on a new housing subdivision.
- The City's total cash basis net position increased 33.4%, or approximately \$1,382,000 from June 30, 2012 to June 30, 2013. The current year governmental activities increased \$882,000 and the net position of the business type activities increased \$500,000.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Position. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Other Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Supplementary Information provides detailed information about the non-major governmental funds, indebtedness, changes in fiduciary assets and liabilities and a comparative schedule of receipts and disbursements.

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Position reports information which helps answer this question.

The Statement of Activities and Net Position presents the City's net position. Over time, increases or decreases in the City's net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Position is divided into two kinds of activities:

- Governmental activities include public safety, public works, health and social services, culture and recreation, community and economic development, general governmental, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business type activities include the water works, sanitary sewer, recycling, and gas systems. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Local Option Sales Tax Fund, 3) the Debt Service Fund, 4) the Capital Projects Fund and 5) the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

- 2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains Enterprise Funds to provide information for the water, sewer, recycling, and gas funds, considered to be major funds of the City.

The required financial statement for proprietary funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

Reconciliations between the government-wide financial statement and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from approximately \$2.451 million to approximately \$3.333 million. The analysis that follows focuses on the changes in cash basis net position of governmental activities.

Changes in Cash Basis Net Position of Governmental Activities		
(Expressed in thousands)		
	Year ended June 30,	
	2013	2012
Receipts:		
Program receipts:		
Charges for service	\$ 125	95
Operating grants, contributions and restricted interest	186	187
Capital grants, contributions and restricted interest	44	41
General receipts:		
Property tax	572	578
Tax increment financing	-	-
Local Option Sales Tax	132	150
Grants and contributions not restricted to specific purposes	-	-
Payment in lieu of taxes	57	66
Unrestricted interest earnings	4	5
Miscellaneous	71	38
Sale of Assets	151	-
Bond proceeds	1,215	-
Total receipts	<u>2,557</u>	<u>1,160</u>
Disbursements:		
Public safety	197	281
Public works	353	358
Culture and recreation	127	134
General government	220	195
Debt service	233	205
Capital projects	545	-
Total disbursements	<u>1,675</u>	<u>1,173</u>
Change in cash basis net position before transfers	882	(13)
Transfers, net	-	-
Change in cash basis net position	<u>882</u>	<u>(13)</u>
Cash basis net position beginning of year	<u>2,451</u>	<u>2,464</u>
Cash basis net position end of year	<u>\$ 3,333</u>	<u>2,451</u>

The City's total receipts and transfers for governmental activities increased by 120.5%, or approximately \$1,398,000. The increase in receipts is mainly due to \$1,215,000 in loan proceeds. The total cost of all programs and services increased by approximately \$502,000 or 42.8%. The increase in programs and services was primarily due to capital project work on a new housing subdivision.

The cost of all governmental activities this year was \$1.675 million compared to \$1.173 million last year. However, as shown in the Statement of Activities and Net Position on page 11, the amount taxpayers ultimately financed for these activities was only \$1.319 million because some of the cost was paid by those directly benefiting from the programs (\$125,000) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$231,000). Overall, the City's governmental activities program receipts increased in 2013 from approximately \$323,000 to approximately \$355,000. The City paid for the remaining "public benefit" portion of governmental activities (\$2,202,000) with taxes (some of which could only be used for certain programs) and other receipts, such as interest, and general entitlements.

Changes in Cash Basis Net Position of Business Type Activities (Expressed in thousands)		
	Year ended June 30,	
	2013	2012
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 763	691
Sewer	120	126
Recycling	63	65
Gas	1,129	743
General receipts:		
Unrestricted interest earnings	1	1
Other general receipts	15	414
Loan proceeds	300	1,263
Total receipts	2,391	3,303
Disbursements:		
Water	967	2,354
Sewer	88	89
Recycling	62	63
Gas	774	693
Total disbursements	1,891	3,199
Change in cash basis net assets before transfers	500	104
Transfers, net	-	-
Change in cash basis net position	500	104
Cash basis net position beginning of year	1,688	1,584
Cash basis net position end of year	\$ 2,188	1,688

Total business type activities receipts for the fiscal year were approximately \$2.391 million compared to \$3.303 million last year, mainly due to decreased loan proceeds. Total disbursements and transfers for the fiscal year decreased 40.9% to a total of \$1.891 million, mainly due to lower water capital project expenditures.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Montezuma completed the year, its governmental funds reported a combined fund balance of \$3,333,092, an increase of \$882,263 from last year's total of \$2,450,829.

- The General Fund cash balance increased \$41,776 from the prior year to \$1,794,300.
- The Debt Service Fund cash balance increased \$577,846 from the prior year to \$591,793. Debt Service increased over the prior year mainly due to \$595,000 in bond proceeds.
- The Capital Projects Fund cash balance increased \$244,378 from the prior year. The Capital Projects Fund was \$0 last year. It was established for the new housing subdivision transactions.
- The Special Revenue, Local Option Sales Tax Fund decreased (\$29,286) from the prior year to \$392,824. Capital projects paid through the Local Option Sales Tax Fund were \$155,232 this year end and \$0 last year.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased by \$111,288 to \$762,092, due primarily to lower operating disbursements.
- The Sewer Fund cash balance increased by \$31,953 to \$506,568, which is a similar increase to last year.
- The Recycling Fund cash balance increased by \$1,563 to \$63,938, which is similar to last year.
- The Gas Fund cash balance increased by \$355,108 to \$855,037 due primarily to an increase in operating receipts..

BUDGETARY HIGHLIGHTS

The City's budget was amended during the year for additional public works, general government, debt service, capital projects and business type activities disbursements.

The City's receipts were \$122,666 less than budgeted, primarily in intergovernmental.

The City's disbursements were \$1,267,943 less than budgeted, primarily in business type activities. Expenditures did not exceed the budget for fiscal year 2013.

DEBT ADMINISTRATION

At June 30, 2013, the City had approximately \$3,858,000 in bonds and other long-term debt, compared to approximately \$2,584,000 last year, as shown below.

Outstanding Debt at Year-End (Expressed in Thousands)		
	June 30, 2013	June 30, 2012
General obligation bonds	\$ 1,965	920
Water Revenue-SRF Loan	1,893	1,664
Total	\$ 3,858	2,584

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$1,965,000 is below its total calculated constitutional debt limit of approximately \$3.6 million.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Montezuma's elected and appointed officials considered many factors when calculating the fiscal year 2014 budget. The amounts levied for property taxes in the original budget filed with the state were slightly more than 4% resulting in an additional \$26,788. However, the City of Montezuma was notified by the Department of Management that there would be a reduction in taxes received due to an appeal in valuation that was filed and then approved by the State. The adjusted amount will be \$605,013 an increase of \$23,042. The increase in property tax will be used to satisfy Debt Service obligations.

COMPONENT UNIT

The separately issued financial statements for the Montezuma Municipal Light and Power Plant, listed as a component unit on these financial statements, is also available by contacting Meryll Hicks, City Clerk, at the address listed below.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Meryll Hicks, City Clerk, 501 East Main St., Box 314, Montezuma, Iowa 50171.

Basic Financial Statements

City of Montezuma, Iowa
Statement of Activities and Net Position - Cash Basis
As of and for the year ended June 30, 2013

	Net (Disbursements) Receipts and Changes in Cash Basis Net Assets						
	Program Receipts				Primary Government		Component Unit
	Disbursements	Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
Functions/Programs:							
Primary government:							
Governmental activities:							
Public safety	\$ 196,727	119,688	22,629	43,422	(10,988)	-	(10,988)
Public works	352,875	-	140,010	-	(212,865)	-	(212,865)
Culture and recreation	127,053	393	23,599	-	(103,061)	-	(103,061)
General government	219,590	4,929	-	-	(214,661)	-	(214,661)
Debt service	233,229	-	-	-	(233,229)	-	(233,229)
Capital Projects	545,352	-	-	824	(544,528)	-	(544,528)
Total governmental activities	1,674,826	125,010	186,238	44,246	(1,319,332)	-	(1,319,332)
Business type activities:							
Water	967,333	763,466	4,428	10,096	-	(189,343)	(189,343)
Sewer	88,144	120,058	-	-	-	31,914	31,914
Recycling	61,816	63,369	-	-	-	1,553	1,553
Gas	773,791	1,128,515	-	-	-	354,724	354,724
Total business type activities	1,891,084	2,075,408	4,428	10,096	-	198,848	198,848
Total primary government	\$ 3,565,910	2,200,418	190,666	54,342	(1,319,332)	198,848	(1,120,484)
Component Unit:							
Municipal Light and Power Plant	\$ 2,893,021	3,245,989	-	-	-	-	352,968
	\$ 2,893,021	3,245,989	-	-	-	-	352,968
General Receipts:							
Property tax levied for:							
General purposes					\$ 367,393	-	367,393
Debt service					204,757	-	204,757
Local option sales tax					132,326	-	132,326
Payment in lieu of taxes					56,329	-	56,329
Unrestricted interest on investments					3,664	1,100	4,764
Loan proceeds					1,215,000	299,964	1,514,964
Miscellaneous					70,963	-	70,963
Sale of capital assets					151,163	-	151,163
Total general receipts and transfers					2,201,595	301,064	2,502,659
Change in cash basis net position					882,263	499,912	1,382,175
Cash basis net position beginning of year					2,450,829	1,687,723	4,138,552
Cash basis net position end of year					\$ 3,333,092	2,187,635	5,520,727
Cash Basis Net Position							
Restricted:							
Non-expendable:							
Library Permanent Fund					\$ 3,500	-	3,500
Expendable:							
Public Streets					326,297	-	326,297
Debt service/improvements					591,793	67,282	659,075
Memorials/Designated Contributions					37,241	-	37,241
Other purposes					617,202	-	617,202
Unrestricted					1,757,059	2,120,353	3,877,412
Total cash basis net position					\$ 3,333,092	2,187,635	5,520,727

See notes to financial statements.

Exhibit B

City of Montezuma, Iowa
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Governmental Funds
As of and for the year ended June 30, 2013

			Special Revenue			
			Capital	Local Option		
	General	Debt Service	Projects	Sales Tax	Non-major	Total
Receipts:						
Property tax	\$ 367,393	204,757	-	-	-	572,150
Other city tax	-	-	-	132,326	-	132,326
Licenses and permits	1,994	-	-	-	-	1,994
Use of money and property	5,280	1,275	824	43	-	7,422
Intergovernmental	19,920	-	-	-	140,010	159,930
Charges for service	119,828	-	-	-	-	119,828
Private contributions	69,730	-	-	-	-	69,730
Miscellaneous	123,829	1,946	1,771	-	-	127,546
Total receipts	707,974	207,978	2,595	132,369	140,010	1,190,926
Disbursements:						
Operating:						
Public safety	196,727	-	-	-	-	196,727
Public works	273,991	-	-	6,423	72,461	352,875
Culture and recreation	127,053	-	-	-	-	127,053
General government	219,590	-	-	-	-	219,590
Debt service	-	233,229	-	-	-	233,229
Capital projects	-	-	390,120	155,232	-	545,352
Total disbursements	817,361	233,229	390,120	161,655	72,461	1,674,826
Excess (deficiency) of receipts over (under) disbursements	(109,387)	(25,251)	(387,525)	(29,286)	67,549	(483,900)
Other financing sources:						
Transfers In	-	8,097	-	-	-	8,097
Transfers Out	-	-	(8,097)	-	-	(8,097)
Bond Proceeds	-	595,000	620,000	-	-	1,215,000
Sale of Assets	151,163	-	-	-	-	151,163
Total other financing sources	151,163	603,097	611,903	-	-	1,366,163
Net change in cash balances	41,776	577,846	224,378	(29,286)	67,549	882,263
Cash balances beginning of year	1,752,524	13,947	-	422,110	262,248	2,450,829
Cash balances end of year	\$ 1,794,300	591,793	224,378	392,824	329,797	3,333,092
Cash Basis Fund Balances						
Nonspendable - permanent endowment library	\$ -	-	-	-	3,500	3,500
Restricted for:						
Debt service	-	591,793	-	-	-	591,793
Public Streets	-	-	-	-	326,297	326,297
Klindt memorial	1,651	-	-	-	-	1,651
Fire Department memorial	27,568	-	-	-	-	27,568
Library Building	8,022	-	-	-	-	8,022
Other purposes	-	-	224,378	392,824	-	617,202
Unassigned	1,757,059	-	-	-	-	1,757,059
Total cash basis fund balances	\$ 1,794,300	591,793	224,378	392,824	329,797	3,333,092

See notes to financial statements.

Exhibit C

City of Montezuma, Iowa

Reconciliation of the Statement of Cash Receipts, Disbursements and Changes in Cash Balances

To the Statement of Activities and Net Position

Governmental Funds

As of and for the year ended June 30, 2013

Total governmental funds cash balances (Exhibit A)	<u>\$ 3,333,092</u>
Cash basis net position of governmental activities (Exhibit B)	<u>\$ 3,333,092</u>
Change in cash balances (Exhibit B)	<u>\$ 882,263</u>
Change in cash basis net position of governmental activities (Exhibit A)	<u>\$ 882,263</u>

See notes to financial statements.

Exhibit D

City of Montezuma, Iowa
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds
As of and for the year ended June 30, 2013

	Enterprise Funds				Total
	Water	Sewer	Recycling	Gas	
Operating receipts:					
Charges for service	\$ 763,466	120,058	63,369	1,128,515	2,075,408
Miscellaneous	-	-	-	-	-
Total operating receipts	763,466	120,058	63,369	1,128,515	2,075,408
Operating disbursements:					
Business type activities	576,641	88,144	61,816	773,791	1,500,392
Total operating disbursements	576,641	88,144	61,816	773,791	1,500,392
Excess (deficiency) of operating receipts over (under) operating disbursements	186,825	31,914	1,553	354,724	575,016
Non-operating receipts (disbursements):					
Interest on investments	667	39	10	384	1,100
SRF Loan Proceeds	299,964	-	-	-	299,964
Intergovernmental	14,524	-	-	-	14,524
Debt Service	(131,246)	-	-	-	(131,246)
Capital projects	(259,446)	-	-	-	(259,446)
Total non-operating receipts (disbursements)	(75,537)	39	10	384	(75,104)
Excess (deficiency) of receipts over (under) disbursements	111,288	31,953	1,563	355,108	499,912
Net change in cash balances	111,288	31,953	1,563	355,108	499,912
Cash balances beginning of year	650,804	474,615	62,375	499,929	1,687,723
Cash balances end of year	\$ 762,092	506,568	63,938	855,037	2,187,635
Cash Basis Fund Balances					
Restricted					
Debt Service	\$ 67,282	-	-	-	67,282
Unrestricted	694,810	506,568	63,938	855,037	2,120,353
Total cash basis fund balances	\$ 762,092	506,568	63,938	855,037	2,187,635

See notes to financial statements.

Exhibit E

City of Montezuma, Iowa

Reconciliation of the Statement of Cash Receipts, Disbursements and Changes in Cash Balances

To the Statement of Activities and Net Position

Proprietary Funds

As of and for the year ended June 30, 2013

Total enterprise funds cash balances (Exhibit D)	\$ 2,187,635
Cash basis net position of business type activities (Exhibit A)	\$ 2,187,635
Net change in cash balances (Exhibit D)	\$ 499,912
Change in cash balance of business type activities (Exhibit A)	\$ 499,912

See notes to financial statements.

Exhibit F

City of Montezuma, Iowa
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Component Unit
As of and for the year ended June 30, 2013

	Municipal Light and Power Plant
Operating receipts:	
Charges for service	\$ 3,245,989
Total operating receipts	<u>3,245,989</u>
Operating disbursements:	
Business type activities	2,464,831
Total operating disbursements	<u>2,464,831</u>
Excess of operating receipts over operating disbursements	781,158
Non-operating receipts (disbursements):	
Rental income	22,929
Interest on investments	6,472
Miscellaneous	5,154
Miscellaneous expense	(14,933)
Debt service	<u>(413,257)</u>
Total non-operating disbursements	<u>(393,635)</u>
Excess of receipts over disbursements	<u>387,523</u>
Net change in cash balances	387,523
Cash balances beginning of year	<u>2,317,285</u>
Cash balances end of year	<u><u>\$ 2,704,808</u></u>
Cash Basis Fund Balances	
Reserved for debt service/improvements	\$ 731,529
CMMPA required deposit	199,000
Unreserved	<u>1,774,279</u>
Total cash basis fund balances	<u><u>\$ 2,704,808</u></u>

See notes to financial statements.

Exhibit G

City of Montezuma, Iowa
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2013

	<u>Agency</u>
Assets	
Cash and investments	<u>\$ (31,202)</u>
Total assets	<u>(31,202)</u>
Liabilities	
Accounts payable	<u>(31,202)</u>
Total liabilities	<u>(31,202)</u>
Net assets	<u><u>\$ -</u></u>

See notes to financial statements.

(1) **Summary of Significant Accounting Policies**

The City of Montezuma is a political subdivision of the State of Iowa located in Poweshiek County. It was first incorporated in 1868 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water, sewer, recycling and gas utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Montezuma has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City.

These financial statements present the City of Montezuma (the primary government) and its component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City. Certain disclosures about the discretely presented component unit are not included because the component unit has been audited separately and a report has been issued under separate cover. The audited financial statements are available at the City Clerk's office.

Discretely Presented Component Unit

The Montezuma Municipal Light and Power Plant is presented in a separate column to emphasize that it is legally separate from the City, but is financially accountable to the City, or whose relationship with the City is such that exclusion would cause the City's financial statements to be misleading or incomplete. The Utility is governed by a five member board appointed by the City Council and the Utility's operating budget is subject to the approval of the City Council.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Poweshiek County Assessor's Conference Board and Poweshiek County Joint E911 Service Board.

B. Basis of Presentation

Government-wide Financial Statements - The Cash Basis Statement of Activities and Net Position (previously referred to as net assets) reports information on all of the non-fiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Activities and Net Position presents the City's non-fiduciary net position. Net position is reported in the following categories/components:

Non-expendable restricted net position is subject to externally imposed stipulations which require the cash balance to be maintained permanently by the City, including the City's Permanent Fund.

Expendable restricted net position result when constraints placed on the use of cash balances are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of cash balances not meeting the definition of the preceding categories. Unrestricted net position often has constraints on cash balances imposed by management which can be removed or modified.

The Cash Basis Statement of Activities and Net Position demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as non-major governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts from general and emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

The Debt Service Fund is utilized to account for property tax and other receipts to be used for the payment of interest and principal on the City's general long-term debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities and other capital assets.

Special Revenue:

The Local Option Sales Tax Fund is used to account for local option sales tax collections and expenditures as specified in the election to collect those taxes.

The City reports the following major proprietary funds:

The Enterprise, Water Fund accounts for the operation and maintenance of the City's water system.

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

The Enterprise, Gas Fund accounts for the operation and maintenance of the City's gas system.

The Enterprise, Recycling Fund accounts for the operation and maintenance of the City's recycling program.

C. Measurement Focus and Basis of Accounting

The City of Montezuma maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there is both restricted and unrestricted cash basis net position available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances

In the governmental fund financials statements, cash basis fund balances are classified as follows:

Nonspendable – Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned – Amounts the Council intends to use for specific purposes.

Unassigned – All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2013, disbursements did not exceed the amounts budgeted.

(2) **Cash and Pooled Investments**

The City's deposits in banks at June 30, 2013 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Included in the June 30, 2013 general fund cash is \$30,614 in library donations and earnings and \$3,500 in library endowment donations, both held in trust by the Montezuma Community Foundation. The \$30,614 is available for use by the library whenever requested by the library board. The \$3,500 may not be spent; only earnings from those contributions will be available.

At June 30, 2013 the City had the following investments:

Type	Carrying Amount	Fair Value
Certificate of deposit	\$ 45,000	45,000
Certificate of deposit	20,000	20,000
Certificate of deposit	37,570	37,570
Certificate of deposit	25,486	25,486
Certificate of deposit	34,051	34,051
Total	<u>\$ 162,107</u>	<u>162,107</u>

In addition, the City had investments in the Iowa Public Agency Trust which are valued at an amortized cost of \$2,657,474 pursuant to Rule 2 a-7 under the Investment Company Act of 1940. The City's investment in the Iowa Public Agency Trust is unrated.

Interest rate risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

(3) Bonds and Notes Payable

Annual debt service requirements to maturity for general obligation bonds and water revenue bonds are as follows:

Year ending June 30,	General		General		Revenue Bonds		Total	
	Obligation Note 2007		Obligation Note 2013		Water			
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2014	\$ 750,000	31,091	60,000	16,065	74,000	56,790	884,000	103,946
2015	-	-	255,000	15,465	76,000	54,570	331,000	70,035
2016	-	-	260,000	12,915	78,000	52,290	338,000	65,205
2017	-	-	260,000	10,315	81,000	49,950	341,000	60,265
2018	-	-	60,000	7,325	84,000	47,520	144,000	54,845
2019	-	-	60,000	6,425	86,000	45,000	146,000	51,425
2020	-	-	65,000	5,525	89,000	42,420	154,000	47,945
2021	-	-	65,000	4,225	92,000	39,750	157,000	43,975
2022	-	-	65,000	2,925	95,000	36,990	160,000	39,915
2023	-	-	65,000	1,463	98,000	34,140	163,000	35,603
2024	-	-			101,000	31,200	101,000	31,200
2025	-	-			105,000	28,170	105,000	28,170
2026	-	-			108,000	25,020	108,000	25,020
2027	-	-			111,000	21,780	111,000	21,780
2028	-	-			115,000	18,450	115,000	18,450
2029	-	-			119,000	15,000	119,000	15,000
2030	-	-			123,000	11,430	123,000	11,430
2031	-	-			127,000	7,740	127,000	7,740
2032	-	-			131,000	3,930	131,000	3,930
Total	\$ 750,000	31,091	1,215,000	82,648	1,893,000	622,140	3,858,000	735,879

A. General Obligation Bonds

The City of Montezuma issued \$1,615,000 in general obligation bond in September, 2007 for the purpose of carrying out a street improvement project. The total principal and interest payments remaining on the general obligation bond issue is \$781,091, payable through 2014.

The City of Montezuma issued \$1,215,000 in general obligation bonds October 30, 2013. Of the total general obligation bonds issued, \$595,000 was for the purpose of advance refunding, which includes \$575,000 of principle plus some of the interest on the September 2007 general obligation bond debt (see Crossover refunding note below) and \$620,000 was for the purpose of funding the South Diamond Subdivision Capital Project. The total principal and interest payments remaining on the general obligation bond issue is \$1,297,648 payable through 2023.

Crossover Refunding-October 30, 2013

On October 30, 2013, the City issued \$1,215,000 in general obligations bonds, part of which would be used to advance refund \$575,000 of outstanding general obligation bonds dated September 1, 2007 in a crossover refunding. Of the total refunding bond proceeds, \$583,392 (after expenses) was placed in an irrevocable escrow account and invested in U.S. Government Obligations bearing interest at such rates as to provide sufficient funds to pay \$4,167 of interest due on the bonds on June 1, 2013 and \$3,125 of interest due on the bonds on December 1, 2013 and June 1, 2014 and to advance refund \$575,000 of the City's general obligation street improvement notes, Series 2007 on June 1, 2014. The new refunding bonds have been added to the appropriate financial statements and schedules. The City remains contingently liable in the remote possibility the account is insufficient to pay the refunding bonds. At June 30, 2013, \$750,000 of such bonds is outstanding. The escrow fund pays interest on the new advance refunding bonds until that time. No advance payment on the general obligation bond was paid in the current year and final payment to pay off this bond is expected to take place June 1, 2014. This advance refunding was undertaken to reduce total debt service payments over the next 4 years by \$15,766 and resulted in an economic gain of \$15,110.

B. Revenue Notes

The City of Montezuma entered into a Water Revenue loan and Disbursement agreement with the State Revolving Fund. The City has pledged future water customer receipts, net of specified operating disbursements to repay this loan. The April 1, 2011 loan is being received by the City as funds are expended with a maximum loan of \$2,125,000 available. As of June 30, 2013, \$1,963,734 had been extended and the loan has been finalized. The interest rate over the loan's life is 3%. The bonds mature June 1, 2032. Interest payments are payable semiannually on June 1 and December 1 of each year, commencing June 1, 2011. The principal is due and payable annually commencing June 1, 2013, and annually thereafter.

The resolutions providing for the issuance of the revenue notes include the following provisions:

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to separate water and sewer revenue note sinking accounts with the Enterprise funds for the purpose of making the note principal and interest payments when due.
- (c) All funds remaining in the water account after the payment of all maintenance and operating expenses and required transfers shall be placed in a water revenue surplus account within the Enterprise Funds. This account is to be used to transfer money to the sinking fund whenever necessary to prevent or remedy a default in the payment of principal or interest. As long as the sinking fund has the full amounts required any balance in the surplus fund is available to be used as needed for the operation of the utility.

Total interest and fees charged to expense during the fiscal year was \$104,039 and \$19,702 respectively. None was associated with product financing arrangements or capitalized enterprise fund assets.

(4) Pension and Retirement Benefits

The City of Montezuma contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 5.78% of their annual covered salary and the City is required to contribute 8.67% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2013, 2012 and 2011, were \$39,711, \$35,144, and \$27,798, respectively, equal to the required contributions for each year.

(5) **Other Postemployment Benefits (OPEB)**

Plan Description – There are three medical/prescription drug plans which provide benefits for retirees and their spouses. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

There are seven active employees in the City's plan, three active employees in the Water department's plan and four active employees in the Electric Utility's plan at year end. There were no early retirees in any of the plans.

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums are as follows:

	Single	Employee/Spouse	Family
City	\$ 545	1,116	1,672
Water Department	545	1,116	1,672
Electric Utility	545	1,116	1,672

The same monthly premiums apply to retirees, which they are required to pay in full. For the year ended June 30, 2013, the City contributed \$108,752 and plan members eligible for benefits contributed \$0 to the plan. The Water Department contributed \$54,446 and plan members eligible for benefits contributed \$0 to the plan. The Electric Utility contributed \$54,126 and plan members contributed \$0 to the plan.

(6) **Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation payable to employees at June 30, 2013 is \$35,738. This liability has been computed based on rates in effect at June 30, 2013.

(7) **Interfund Transfers**

The following are interfund transfers during the year ended June 30, 2013:

Transfer to:	Transfer from:	Amount
Debt Service	South Diamond Subdivision-Capital Project	\$ 8,097

(8) **Transactions Between the City and the Component Unit**

The following are significant transactions between the City of Montezuma and the Montezuma Light and Power Plant:

Transaction Description	From City to Municipal Utility	From Municipal Utility to City
Water Dept. Electric Use	\$ (21,405)	-
Water Dept. Billing/Meter Reading	(21,292)	-
Gas Dept. Electric Use	(1,563)	-
Gas Dept. Billing/Meter Reading	(20,566)	-
General City Electric Use	(62,734)	-
Sewer/Recycling Billing	(2,100)	-
Computer Maintenance	(5,413)	-
Power Plants - Taxes in lieu	-	56,329
Totals	\$ (135,073)	56,329

The Municipal Utility's personnel do the meter reading and billing for the electric, water and gas departments. The City then reimburses the Municipal Utility for their share of those costs.

(9) Related Party Transactions

The City had business transactions between the City and City officials totaling \$350,643 during the year ended June 30, 2013.

(10) Risk Management

The City is a member of the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 679 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 150 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as expenditures from its operating funds at the time of payment to the risk pool. The City's contributions to the Pool for the year ended June 30, 2013 were \$61,011.

The pool uses reinsurance excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, law enforcement, and public officials wrongful acts liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim. For members requiring specific coverage from \$3,000,000 to \$15,000,000, such excess coverage is also reinsured. Property and automobile physical risks are retained by the Pool up to \$250,000 each occurrence, each location, with excess coverage reinsured by Lexington Insurance Company.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing certificate, or in the event a series of casualty claims exhausts total members' equity plus and reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. The City does not report liability for losses in excess of reinsurance or excess risk-sharing recoveries unless it is deemed probable such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, at June 30, 2013, no liability has been recovered in the City's financial statements. As of June 30, 2013, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their casualty capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its casualty capital contributions. However, the refund is reduced by an amount equal to the annual casualty operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City also carries commercial insurance purchased from IMWCA for coverage associated with workers compensation in the amount of \$1,000,000 per claim. Excess coverage is provided through reinsurance with no cap per section 85 of the Iowa Code.

The City assumed liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(11) Commitments and Contingencies

The City of Montezuma has entered into a contract for work on the South Diamond housing subdivision. The original contract plus change orders totals \$617,419. As of June 30, 2013, \$337,527 had been paid, leaving \$279,812 which will be paid as work progresses.

On December 6, 2006, the City of Montezuma Light & Power plant entered into a prorata investment in the Central Minnesota Municipal Power Agency's CAPX2020 Investment. There is a contingent liability for \$262,215, or 0.88% of a \$29,902,146 investment by CMMPA. As of June 30, 2013, none of this had been paid. To date revenues have covered the costs on this investment so CMMPA has not required the funds, but we remain committed to this payment if needed.

Other Information

City of Montezuma, Iowa
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances
Budgetary and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds
Required Supplementary Information
Year ended June 30, 2013

	Budgeted Amounts					
	Governmental Funds Actual	Proprietary Funds Actual	Net	Original	Final	Final to Net Variance
Receipts:						
Property tax	\$ 572,150	-	572,150	581,971	581,971	(9,821)
Tax increment financing collections	-	-	-	-	-	-
Other city tax	132,326	-	132,326	129,674	129,674	2,652
Licenses and permits	1,994	-	1,994	2,200	2,200	(206)
Use of money and property	7,422	30,501	37,923	10,000	10,000	27,923
Intergovernmental	159,930	14,524	174,454	137,000	451,488	(277,034)
Charges for services	119,828	5,321,397	5,441,225	5,419,835	5,419,835	21,390
Private contributions	69,730	-	69,730	-	-	69,730
Miscellaneous	127,546	5,154	132,700	90,000	90,000	42,700
Total receipts	1,190,926	5,371,576	6,562,502	6,370,680	6,685,168	(122,666)
Disbursements:						
Public safety	196,727	-	196,727	199,900	199,900	3,173
Public works	352,875	-	352,875	447,681	603,181	250,306
Health & Social Services	-	-	-	2,500	2,500	2,500
Culture and Recreation	127,053	-	127,053	155,635	155,635	28,582
Community & economic development	-	-	-	20,000	20,000	20,000
General government	219,590	-	219,590	209,068	239,068	19,478
Debt service	233,229	-	233,229	258,577	258,577	25,348
Capital projects	545,352	-	545,352	-	603,228	57,876
Business type activities	-	4,784,105	4,784,105	5,330,297	5,644,785	860,680
Total disbursements	1,674,826	4,784,105	6,458,931	6,623,658	7,726,874	1,267,943
Excess (deficiency) of receipts over (under) disbursements	(483,900)	587,471	103,571	(252,978)	(1,041,706)	1,145,277
Other financing sources, net	1,366,163	299,964	1,666,127	-	753,228	(912,899)
Excess (deficiency) of receipts and other financing sources over (under) disbursements	882,263	887,435	1,769,698	(252,978)	(288,478)	232,378
Balances beginning of year	2,450,829	4,005,008	6,455,837	5,866,272	5,866,272	589,565
Balances end of year	\$ 3,333,092	4,892,443	8,225,535	5,613,294	5,577,794	821,943

See accompanying independent auditor's report.

City of Montezuma, Iowa
Notes to Other Information - Budgetary Reporting
June 30, 2013

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds, except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Funds, the Permanent Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted revenues and other sources by \$1,067,716 and disbursements by \$1,103,216. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2013, disbursements did not exceed the amounts budgeted.

Supplementary Information

Schedule 1

City of Montezuma, Iowa
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Non-Major Governmental Funds
As of and for the year ended June 30, 2013

	<u>Special Revenue</u>		
	Road Use	Permanent Fund	Total
Receipts:			
Uses of Money & Property	\$ -	-	-
Intergovernmental	140,010	-	140,010
Total receipts	140,010	-	140,010
Disbursements:			
Operating:			
Public works	72,461	-	72,461
Total disbursements	72,461	-	72,461
Excess (deficiency) of receipts over (under) disbursements	67,549	-	67,549
Other financing sources (uses):	-	-	-
Net change in cash balances	67,549	-	67,549
Cash balances beginning of year	258,748	3,500	262,248
Cash balances end of year	\$ 326,297	3,500	329,797
Cash Basis Fund Balances			
Public Streets	\$ 326,297		326,297
Nonspendable - permanent endowment library	-	3,500	3,500
Total cash basis fund balances	\$ 326,297	3,500	329,797

See accompanying independent auditor's report.

Schedule 2

City of Montezuma, Iowa
Schedule of Indebtedness
Year ended June 30, 2013

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest & Fees Paid	Interest Due and Unpaid
General obligation bonds:									
Street	9/1/2007	3.8-4.2%	\$1,615,000	\$ 920,000		170,000	750,000	38,477	2,591
Housing project & refunding	10/30/2012	1-2.25%	\$1,215,000	\$ -	1,215,000		1,215,000	24,752	1,339
				<u>\$ 920,000</u>	<u>1,215,000</u>	<u>170,000</u>	<u>1,965,000</u>	<u>63,229</u>	<u>3,930</u>
Water Revenue Notes:									
SRF-Series 2011	4/1/2011	3.00%	\$1,963,734	\$ 1,663,769	299,965	70,734	1,893,000	60,512	4,732
				<u>\$ 1,663,769</u>	<u>299,965</u>	<u>70,734</u>	<u>1,893,000</u>	<u>60,512</u>	<u>4,732</u>

Schedule 3

City of Montezuma, Iowa
Bond and Note Maturities
Year ended June 30, 2013

Year Ending June 30,	General Obligation bonds		General Obligation bonds		SRF	
	Street		Housing Project & Refunding		Water Revenue Bonds	
	Issued 9-1-2007		Issued 10-30-2012		Issued 4-1-2011	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2014	4.10%	750,000	1.00%	60,000	3.00%	74,000
2015			1.00%	255,000	3.00%	76,000
2016			1.00%	260,000	3.00%	78,000
2017			1.15%	260,000	3.00%	81,000
2018			1.50%	60,000	3.00%	84,000
2019			1.50%	60,000	3.00%	86,000
2020			2.00%	65,000	3.00%	89,000
2021			2.00%	65,000	3.00%	92,000
2022			2.25%	65,000	3.00%	95,000
2023			2.25%	65,000	3.00%	98,000
2024					3.00%	101,000
2025					3.00%	105,000
2026					3.00%	108,000
2027					3.00%	111,000
2028					3.00%	115,000
2029					3.00%	119,000
2030					3.00%	123,000
2031					3.00%	127,000
2032					3.00%	131,000
		<u>\$ 750,000</u>		<u>\$ 1,215,000</u>		<u>1,893,000</u>

See accompanying independent auditor's report.

Schedule 4

City of Montezuma, Iowa
Schedule of Changes in Fiduciary Assets and Liabilities
Agency Fund
June 30, 2013

	Balance			Balance End of
	Beginning of Year	Additions	Deductions	Year
Assets				
Cash	\$ (14,952)		16,250	(31,202)
Liabilities				
Accounts payable	\$ (14,952)		16,250	(31,202)

See accompanying independent auditor's report.

City of Montezuma, Iowa
Schedule of Receipts by Source and Disbursements by Function
All Governmental Funds
For the Last Ten Years

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Receipts:										
Property tax	\$ 572,150	577,547	543,152	556,514	538,865	508,001	480,742	476,022	459,199	431,436
Tax increment financing collections	-	-	6,779	47,711	48,184	47,695	45,124	43,733	46,885	49,794
Other taxes	132,326	150,447	130,827	130,600	128,568	166,417	-	-	986	-
Licenses & permits	1,994	4,325	2,913	2,485	2,725	2,830	-	-	-	-
Use of money and property	7,422	6,748	17,806	10,519	28,516	82,230	75,417	41,662	29,397	19,891
Intergovernmental	159,930	163,456	145,670	194,512	245,238	353,343	121,433	122,541	122,047	136,597
Charges for service	119,828	89,422	80,913	88,211	97,647	81,596	82,222	89,033	74,911	88,461
Miscellaneous	197,276	167,951	142,295	146,363	180,486	153,127	97,860	103,531	481,620	77,702
Total	<u>\$ 1,190,926</u>	<u>1,159,896</u>	<u>1,070,355</u>	<u>1,176,915</u>	<u>1,270,229</u>	<u>1,395,239</u>	<u>902,798</u>	<u>876,522</u>	<u>1,215,045</u>	<u>803,881</u>
Disbursements:										
Operating:										
Public safety	\$196,727	281,151	178,712	183,285	286,586	325,039	164,930	260,458	159,325	178,665
Public works	352,875	355,719	326,212	224,066	270,817	259,360	241,578	193,131	201,900	262,332
Health and social services	0	-	-	-	-	-	2,750	-	2,500	6,730
Culture and recreation	127,053	134,210	143,730	186,233	117,837	114,126	108,146	126,386	399,413	121,897
Community & economic development	0	-	-	-	-	151,878	-	-	-	-
General government	219,590	194,967	141,931	114,141	106,235	109,311	104,242	103,364	100,203	102,222
Debt service	233,229	204,876	251,373	282,731	285,994	334,911	165,895	169,962	169,803	-
Capital projects	545,352	-	-	-	358,000	1,405,527	-	-	-	-
Total	<u>\$1,674,826</u>	<u>1,170,923</u>	<u>1,041,958</u>	<u>990,456</u>	<u>1,425,469</u>	<u>2,700,152</u>	<u>787,541</u>	<u>853,301</u>	<u>1,033,144</u>	<u>671,846</u>

See accompanying independent auditor's report.



Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed In Accordance with Government Auditing Standards

To the Honorable Mayor and Members of the City Council
City of Montezuma
Montezuma, Iowa

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Montezuma as of and for the year ended June 30, 2013, and the related notes to financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated September 11, 2013. Our report expressed unmodified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Montezuma's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Montezuma's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Montezuma's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of City of Montezuma's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in Part I of the accompanying Schedule of Findings and Questioned Costs as item (A) to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Montezuma's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

However, we noted certain immaterial instances of non-compliance or other matters which are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2013 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

City of Montezuma's Responses to Findings

The City of Montezuma's responses to findings identified in our audit are described in the accompanying Schedule of Findings. The City of Montezuma's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Audit Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Montezuma during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Van Maanen, Sietstra & Meyer, PC

Van Maanen, Sietstra & Meyer, PC
Certified Public Accountants

September 11, 2013

Part I: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

- (A) Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal are all done by the same person.

Recommendation - We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances. The City should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

Response - We will consider this.

Conclusion - Response acknowledged.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Part II: Other Findings Related to Statutory Reporting:

- (1) Certified Budget - Disbursements during the year ended June 30, 2013 did not exceed the budget.
- (2) Questionable Disbursements - No disbursements were noted that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- (3) Travel Expense - No disbursements of City of Montezuma money for travel expenses of spouses of City officials or employees were noted.
- (4) Business Transactions

Business transactions between the City and City officials or employees for the year ended June 30, 2013 are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Jim Hicks, Mayor, Owner Owner of Jim's Heating & Air Conditioning	Heating System & Repairs	\$473
Doug Vermeer, Trustee of Montezuma Light & Power Owner of Vannoy Chevrolet	Vehicle repairs & maintenance	\$3,407
Corey Simpson, City Councilman Proprietor	Pesticide application	\$300
Charlie Sheets, Trustee of Montezuma Light & Power Owner of Sheets Excavating	Excavating work Storm sewer repairs	\$346,463

In accordance with Chapter 362.5(3)(j) of the Code of Iowa, the transactions within the Trustees may represent conflicts of interest since total transactions with the individuals were more than \$1,500 during the fiscal year. The bulk of the transactions, however, with Sheets Excavating were won through competitive bidding.

City of Montezuma, Iowa
Scheduling of Findings
Year Ended June 30, 2013

- (5) Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that coverage is adequate for current operations.
- (6) Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.
- (7) Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.
- (8) Revenue Bonds and Notes - The City of Montezuma has established proper accounts as required by the City revenue note resolution.